
Reference Number: **2006-7-1**

Federal Program: 84.181

State Administering Department: Department of Developmental Services

Fiscal Year Initially Reported: 2005-06

Audit Finding: Level of Effort – Maintenance of Effort. The Department of Developmental Services does not have a system in place to demonstrate that it maintains funding under the Early Start Program for early intervention services for children and their families at a level that is at least equal to the funding for the prior year.

Status of Corrective Action: Fully corrected. ²

Reference Number: **2006-7-2**

Federal Program: 84.298

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2003-04

Audit Finding: Level of Effort – Supplement Not Supplant. The Department of Education (Education) does not have a system in place for monitoring the State's compliance with the requirement that it use revenues from Innovative Education to supplement, rather than supplant, existing funds for grant-related activities.

Status of Corrective Action: Partially corrected. Education is discussing methods to resolve the lack of documentation that shows compliance with the supplement-not-supplant requirements.

Reference Number: **2006-13-1**

Federal Program: 84.181

State Administering Department: Department of Developmental Services

Fiscal Year Initially Reported: 2005-06

Audit Finding: Suprecipient Monitoring. The Department of Developmental Services (Developmental Services) did not completely fulfill its subrecipient monitoring responsibilities for its Early Start Program. Specifically, Developmental Services did not provide the Catalog of Federal Domestic Assistance (CFDA) title and number, the award number, and the name of the Federal agency when awarding program funds through a contract.

Status of Corrective Action:

Partially corrected. Developmental Services revised all grant contract formats to include identification of the federal award information. The information that is included on each subrecipient contract includes the CFDA title and number, award name and number and the name of the federal agency. In addition, Developmental Services Contract Section has implemented a procedure to require that all requests for contracts include the applicable federal award information.

The Developmental Services contracts with Family Resource Centers have been amended to include the required federal award information. All other Developmental Services contracts are in the process of being amended to include the federal award information. It is anticipated that all affected contracts will be amended by the end of January 2008.³

Reference Number:

2006-14-7

Federal Program:

84.032

State Administering Department:

California Student Aid Commission

Fiscal Year Initially Reported:

2001-02

Audit Finding:

Special Tests and Provisions. Student Aid's auxiliary organization administers the loan program. However, the auxiliary organization has not developed adequate internal controls over its information systems to provide reasonable assurance that it keeps current, complete, and accurate records of each loan. Specifically, we found weaknesses in the auxiliary organization's controls over entity-wide security planning and management, and its restriction of access to data files. We also found weaknesses in the operating agreement between Student Aid and its auxiliary organization.

Status of Corrective Action:

Partially corrected. Entity-wide Security Planning and Management
EdFund has an entity-wide security program plan. Many elements of the plan are in place while others are continuing to be addressed. A significant number of the high-risk and moderately high-risk findings identified in the June 2005 risk assessment have been mitigated, although, some remain to be addressed. EdFund is in the process of expanding its dedicated information security team by providing additional resources to better strengthen this function.

Data Maintenance

The auxiliary is strengthening its electronic access controls specific to the limited number of employees designated by

U.S. DEPARTMENT EDUCATION

Reference Number:	2007-1-6
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families With Disabilities
Federal Award Numbers and Years:	H181A050037;2005 H181A060037;2006
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 80.20, Standards for Financial Management Systems

- (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
 - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Condition

Developmental Services does not have an adequate internal control process in place to assure that expenses incurred by regional centers are only for allowable activities and costs. Specifically, the regional centers' reimbursement claims do not include the detail necessary for Developmental Services staff who approve the claims to determine whether the claims include only allowable activities and costs covered under the program. Regional centers submit summary-level claims that include only two amounts—a total for operations and a total for purchase of services. However, the regional centers did not submit additional source documentation to support the \$31.6 million they were paid during fiscal year 2006–07.

The regional centers use data generated from their Uniform Fiscal System (UFS) to create the claims they submit for reimbursement. Additionally, according to the chief of the Customer Application and Program Support Section, she believes the UFS system is reliable because it links eligible children with the specific services they receive from certain vendors, and it has built-in checks to prevent duplicate billing, billing over hours, and billing for noneligible consumers. However, Developmental Services staff who approve regional center claims do not reconcile the claim amounts to the expenses recorded in UFS when approving claims. Moreover, its program staff who conduct site visits to each regional center triennially do not review financial information such as their claims submitted for payment and the related source documentation.

Finally, although Developmental Services' auditors review a sample of claims and salary allocations charged to the program during their biennial fiscal audits of the regional centers, these reviews are not sufficient for the prevention and early detection of unallowable activities and costs. For example, its auditors completed fiscal audits of nine regional centers during fiscal year 2006–07, and these audits covered payments made between fiscal year 2000–01 and fiscal year 2004–05.

Without an adequate internal control process in place, there is the possibility that program funds could be spent on unallowable activities and costs.

Questioned Costs

Unknown

Recommendation

Developmental Services should establish procedures to assure that regional centers charge only allowable activities and costs to the grant.

Department's View and Corrective Action Plan

Developmental Services disagrees with this finding as there is a statutory and contractual structure in place that provides for good internal control. The historic and unique role of regional centers in implementing California's developmental disabilities program is one that the California Legislature carefully contemplated. The system in place is one that under Section 4620(b) of the Welfare and Institutions Code states: "The Legislature finds that the service provided to individuals and their families by regional centers is of such a special and unique nature that it cannot be satisfactorily provided by state agencies. Therefore, private nonprofit community agencies shall be utilized by the state for the purpose of operating regional centers." In subsequent sections of the Code, the Legislature put into place a governance structure to minimize conflicts of interest and to enhance accountability for services to people with developmental disabilities. Specifically, Section 4631 of the Welfare and Institutions Code prescribes how costs shall be budgeted for, accounted for, and reported. Explicit in this is the establishment of a Uniform Fiscal System (UFS) that establishes the relationship between the services provided and the costs claimed for those services. This system is reinforced by Article IV of the regional center contracts that prescribe the data collection responsibilities in Subsection 3 as follows:

- a. . . . The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract (hereinafter collectively called the "records") to the extent and in such detail as will properly reflect net costs (direct and indirect) of labor, materials, equipment, supplies and services, overhead and other costs and expenses of whatever nature for which reimbursement is claimed under the provisions of this contract in accordance with mutually agreed to procedures and generally accepted accounting principles.

Regional centers thus act as fiscal intermediaries, systematically capturing expenditure information with ample supporting documentation that they maintain to validate the payment of claims. To ensure that the regional centers maintain the required supporting documentation, as cited in the condition for this finding, Developmental Services' auditors review a sample of the claims and salary allocations to ensure that unallowable activities and costs to the grant have not been billed by the regional centers.

Developmental Services recognizes that for the period of this review, its auditors have not been reviewing a sample of claims and salary allocations on a timely basis to allow for the early detection of unallowable activities and costs to the grant. However, Developmental Services has made aggressive efforts to hire auditors to perform the audits upon the regional centers on a timely basis. For example, the biannual fiscal audits upon the regional centers that are currently in progress cover fiscal years 2005–06 and 2006–07. More timely completion of these audits provides Developmental Services with the ability to promptly detect and identify unallowable activities and costs to the grant.

We recognize, however, that there is always room for improvement and appreciate the Bureau of State Audits' recommendation. To address the concerns expressed in this finding, Developmental Services will develop additional procedures for the program staff who review and approve regional center claims so that the claim amounts are reconciled to the expenses recorded in UFS prior to approving the claims for payment. As discussed with the auditors, Developmental Services will extract all program

claims by regional center on a monthly basis and compare each invoice submitted against the total claim for purchase of services before approving the invoice for payment. If the claim does not exceed the total amount of the invoice submitted for the same period, the invoice will be considered valid for payment. This procedure, along with the review of supporting documentation for the regional centers invoices in the biannual audits performed by Developmental Services' auditors, will provide for timely detection and identification of unallowable activities and costs in the regional center billing invoices.

Reference Number:	2007-1-7
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families With Disabilities
Federal Award Numbers and Years:	H181A050037;2005 H181A060037;2006
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 80.36, Procurement

- (a) States. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

CALIFORNIA STATE CONTRACT MANUAL, CHAPTER 9—CONTRACT MANAGEMENT, Section 9.04, Responsibilities of the Contract Manager

- (A) Typical responsibilities of the contract manager are as follows:
 - (9) Review and approve invoices for payment to substantiate expenditures for work performed and to prevent penalties being assessed under GC § 926.17.

Condition

Developmental Services does not have an adequate internal control process in place to assure that expenses incurred by one of its vendors, WestEd, are only for allowable activities and costs.

Specifically, WestEd, a nonprofit vendor that provides program support, submits monthly invoices to Developmental Services that contain summary-level expenses for personnel, consultants, operating costs, and administrative management. These invoices, while categorizing expenses, do not include supporting documentation necessary for Developmental Services staff who approve the invoices to substantiate the expenses and determine whether the costs claimed are for allowable activities and costs.

According to one of its supervisors, the additional supporting documentation is not necessary because Developmental Services' contract requires WestEd to submit a detailed breakdown of its expenses at the end of each fiscal year. However, this approach does not allow for the prevention or early detection of unallowable activities and costs from being funded during the year payment is made. Furthermore, Developmental Services had not received the supporting documentation for the invoices paid in fiscal year 2006–07 as of December 2007. Consequently, Developmental Services has paid WestEd \$2.7 million during fiscal year 2006–07 without any assurance that the activities and costs were allowable.

In prior years Developmental Services required WestEd to submit more detailed supporting documentation with its invoices, such as the breakdown of specific employees' hours. One of its supervisors stated that starting in fiscal year 2006–07, Developmental Services allowed WestEd to submit less-detailed monthly invoices so that WestEd could focus more on its programmatic support and deliverables instead of spending time on this administrative task. However, Developmental Services' decision is inconsistent with the State's contracting procedures and reduces its ability to assure that federal funds are spent on only allowable activities and costs.

Questioned Costs

Unknown

Recommendation

Developmental Services should require WestEd to submit detailed supporting documentation with its invoices so that the department can assure that only activities and costs allowed will be funded by the grant.

Department's View and Corrective Action Plan

Developmental Services audit and program staff will work with WestEd to renegotiate and amend the current contract in order to assure that only activities and costs allowed are reimbursed by Developmental Services. Specifically, Developmental Services audit and program staff will review previous invoice procedures and current invoice procedures, will identify the appropriate level of detail required for determining allowable activities and costs, and will initiate a new invoicing process per a contract amendment.

Reference Number:	2007-1-9
Federal Catalog Number:	84.186
Federal Program Title:	Safe and Drug-Free Schools and Communities—State Grants (SDFSC)
Federal Award Numbers and Years:	Q186B050005;2005 Q186B060005;2006
Category of Finding:	Activities Allowed/Allowable Costs Subrecipient Monitoring
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Reference Number:	2007-7-9
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families With Disabilities
Federal Award Numbers and Years:	H181A050037;2005 H181A060037;2006
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

TITLE 34—EDUCATION, PART 303—EARLY INTERVENTION PROGRAM FOR INFANTS AND TODDLERS WITH DISABILITIES, Subpart B—State Application for a Grant, Section 303.124—Prohibition Against Supplanting

- (a) The statement must include an assurance satisfactory to the Secretary that Federal funds made available under this part will be used to supplement the level of State and local funds expended for children eligible under this part and their families and in no case to supplant those State and local funds.
- (b) To meet the requirement in paragraph (a) of this section, the total amount of State and local funds budgeted for expenditures in the current fiscal year for early intervention services for children eligible under this part and their families must be at least equal to the total amount of State and local funds actually expended for early intervention services for these children and their families in the most recent preceding fiscal year for which the information is available. Allowance may be made for—
 - (1) Decreases in the number of children who are eligible to receive early intervention services under this part; and
 - (2) Unusually large amounts of funds expended for such long-term purposes as the acquisition of equipment and the construction of facilities.

Condition

Developmental Services refers to the Special Education—Grants for Infants and Families with Disabilities program as the Early Start program. Developmental Services did not provide sufficient information to demonstrate its compliance with the program’s maintenance of effort (MOE) requirement. Specifically, according to the chief of the Estimates Section, Developmental Services does not separately budget the state funds it plans to spend at regional centers for serving eligible children and their families in the program. Instead, state funds are budgeted to the regional centers to serve various clients—those in the Early Start program as well as those who receive assistance through other programs.

Furthermore, Developmental Services cannot determine “the total amount of State and local funds actually expended for early intervention services for these individuals and their families in the most recent preceding fiscal year.” Specifically, the regional centers submit monthly claims reimbursement summaries for all of their federal programs, including the Early Start program and one monthly claims reimbursement summary for the services charged to the State’s General Fund. The reimbursement claims for the General Fund have a line item for operations and a line item for purchase of services. The General Fund expenditures are coded to program cost account codes that do not specifically

identify charges paid with state funds for the Early Start program. Thus, using its accounting records, Developmental Services is unable to determine how much of the General Fund reimbursement claims amount for fiscal year 2005–06 was spent on the Early Start program.

According to Developmental Services, it has derived the actual amount of state funds spent by the regional centers on the “purchase of services” line item from the regional centers’ Uniform Fiscal System records for fiscal year 2005–06. Additionally, Developmental Services uses an estimate to derive the amount of State funds spent for the “operations” line item. Specifically, Developmental Services estimates the regional centers’ “operations” expenditures by calculating the Early Start coordinators’ salaries and fringe benefits, based on a caseload ratio of 1:45, and adding associated rent and operating expense and equipment expenditures. However, Developmental Services’ method used to estimate operations costs is not a substitute for determining the actual amount spent for the regional centers’ operations costs. Consequently, without the appropriate budget and expenditure information, Developmental Services cannot demonstrate it is in compliance with the MOE requirement.

Questioned Costs

Unknown

Recommendations

Developmental Services should annually establish a budget that includes the total amount of state and local funds to be spent on the program.

Developmental Services should also require the regional centers to track all funds actually expended for early intervention services under the program for the children and their families and to report these expenditures to it annually.

Department’s View and Corrective Action Plan

Developmental Services believes it has a methodology to demonstrate the MOE requirements that is acceptable to the federal cognizant agency, Office of Special Education Programs (OSEP).

For the Purchase of Services (POS) expenses, the Uniform Fiscal System (UFS) captures data on all services provided to regional center consumers. This data allows for Developmental Services to determine the total amount of state funds spent upon the Early Start Program charged to POS. The auditors acknowledged that this was an acceptable method to determine the actual amount of state funds spent for POS on the Early Start Program.

For the Operations expenses, Developmental Services will propose to OSEP that it recognize and allow the allocation of the total regional center Operations expenditures attributable to the Early Start Program on the basis of the caseload ratio. Developmental Services will confirm in writing with OSEP that this is an approved method for determining the actual state funds expended for the regional center Operations costs.

The above demonstrates that Developmental Services has the ability to determine the total amount of actual state funds expended upon the Early Start Program.

For budgeting Early Start Program POS, Developmental Services takes the most recent fiscal year for which complete UFS data is available to determine the percent of the total POS attributable to the Early Start Program. This percentage is applied to the proposed total POS budget to determine the Early Start Program budget.

For budgeting Early Start Program Operations, Developmental Services takes the total regional center Operations budget and allocates the budget attributable to the Early Start Program based upon the caseload ratio. Developmental Services will confirm in writing with the federal cognizant agency (OSEP) that this is an approved method for determining the state funds budgeted for regional center Operations costs.

Based upon the above, Developmental Services will be better able to determine the total actual state funds expended and can demonstrate that the amounts budgeted meet the requirements of MOE for the Early Start Program. As stated, to ensure that the federal cognizant agency is in agreement with the methodology used, Developmental Services will request in writing that OSEP confirm that the methodology has been approved for the Early Start Program.

Auditor's Comments on Department's View

Developmental Services' assertion that "the auditors acknowledged that this [deriving purchase of services expenses from UFS] was an acceptable method to determine the actual amount of state funds spent for POS on the Early Start program" implies that we have audited the accuracy and completeness of the information from this system. This is not the case. Although Developmental Services informed us that UFS captures actual POS expenditures, which might help it track MOE compliance, we have not made a determination through testing on the veracity of this system. Thus, we cannot conclude that UFS is an acceptable method for determining the POS portion of MOE compliance.

Furthermore, as indicated in our audit finding at reference number 2007-1-6, we are concerned that Developmental Services' staff do not reconcile the claim amounts to the expenses recorded in UFS when approving claims. Without this reconciliation, there is no way of knowing whether the expenditures recorded in UFS agree with the program expenditures paid by Developmental Services.

Finally, while we appreciate Developmental Services' efforts to seek federal approval for its method of determining MOE compliance, we fail to understand why Developmental Services is reluctant to pursue a simpler, more direct method to document its compliance. Specifically, Developmental Services could establish a specific budget line item for Early Start state spending related to its MOE requirement similar to the separate line item it has for the State's matching requirement for other federal programs it administers and require regional centers to track program-related expenses associated with that budget line item using program cost account codes.

Reference Number:	2007-8-5
Federal Catalog Number:	84.186
Federal Program Title:	Safe and Drug-Free Schools and Communities—State Grants (SDFSC)
Federal Award Numbers and Years:	Q186B050005;2005 Q186B060005;2006
Category of Finding:	Period of Availability
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Auditor's Comments on Department's View

Because ADP lacked written procedures to ensure that SDFSC funds were used only during the authorized period of availability, we relied on the information ADP presented to us. The chief of ADP's Office of Grants Management provided SDFSC tracking log for budgets and the Budgets Office provided the SDFSC proposed expenditure plan. These documents may have other purposes; however, they were provided in response to our request to understand ADP's processes over the period-of-availability requirement. As noted in our finding, after we discussed this issue with ADP, the chief of ADP's Office of Grants Management initiated a process to correct the discrepancies.

Reference Number:	2007-9-2
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families With Disabilities
Federal Award Numbers and Years:	H181A050037;2005 H181A060037;2006
Category of Finding:	Procurement, and Suspension and Debarment
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

TITLE 34—EDUCATION, PART 303—EARLY INTERVENTION PROGRAM FOR INFANTS AND TODDLERS WITH DISABILITIES, Subpart F—State Administration, Section 303.523, Interagency Agreements

- (a) General. Each lead agency is responsible for entering into formal interagency agreements with other State-level agencies involved in the State's early intervention program. Each agreement must meet the requirements in paragraphs (b) through (d) of this section.
- (c) Procedures for resolving disputes. (1) Each agreement must include procedures for achieving a timely resolution of intra-agency and interagency disputes about payments for a given service, or disputes about other matters related to the State's early intervention program. Those procedures must include a mechanism for making a final determination that is binding upon the agencies involved.
 - (2) The agreement with each agency must—
 - (i) Permit the agency to resolve its own internal disputes (based on the agency's procedures that are included in the agreement), so long as the agency acts in a timely manner; and
 - (ii) Include the process that the lead agency will follow in achieving resolution of intra-agency disputes, if a given agency is unable to resolve its own internal disputes in a timely manner.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 80.35, Subawards to Debarred and Suspended Parties

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

Condition

Developmental Services refers to the Special Education—Grants for Infants and Families With Disabilities program as the Early Start program. Developmental Services contracts with three state agencies. These state agencies provide assistance such as services to children with vision, hearing, and severe orthopedic impairments who are not eligible for services under the Lanterman Developmental Disabilities Services Act. We reviewed the contract Developmental Services has with one of the state agencies and found that the contract did not include procedures for resolving disputes between it and the state agency or for the state agency to resolve its own disputes. In addition to the dispute language, the contracts are also missing the required suspension and debarment language.

The assistant section chief of its Customer Support Section, the section that prepares the contracts, stated that she was not aware of the federal requirement regarding the inclusion of dispute resolution or suspension and debarment language in Developmental Services' contracts with other state agencies. Specifically, Customer Support Section staff stated that program staff did not ask for it when requesting the contract, and the State Contracting Manual does not require it. Nevertheless, the omission of the dispute resolution language could prevent Developmental Services from achieving a timely resolution of disputes and the omission of suspension and debarment language increases the likelihood that federal funds could be paid to a suspended or debarred party.

Questioned Costs

Not applicable.

Recommendations

Developmental Services should revise its contracts with other state agencies to include the required dispute resolution and suspension and debarment language. Additionally, Developmental Services should ensure that its staff are knowledgeable of all federal laws and regulations governing the program.

Department's View and Corrective Action Plan

Developmental Services recognizes the need to revise its interagency agreements and has developed the following corrective action plan.

- The Customer Support Section will develop the appropriate dispute resolution language for Interagency Agreements (IA) with other State-level agencies, which will be reviewed and approved by the Developmental Services Office of Legal Affairs. Upon approval by the Office of Legal Affairs, all applicable IAs currently in effect will be amended to add the dispute resolution language. In addition, Developmental Services will forward the federal suspension and debarment form to applicable State-level agencies for signature.
- Customer Support Section staff will be trained to become knowledgeable of all federal laws and regulations pertaining to federal-funded programs and to ensure all applicable IAs have the required contract language.
- Developmental Services anticipates that the corrective action plan will be fully implemented by May 31, 2008.

by roughly \$150 for these five loans. However, the September 30, 2007, report included more than 2.3 million loans with default claim payments to lenders, and as such, the total amount of this error could be quite substantial. Further, the NSLDS report is used by the U.S. Department of Education (Federal Education) for various performance reports, and inaccuracies can reduce its usefulness.

Questioned Costs

Not applicable.

Recommendation

Student Aid should ensure that future reports that EDFUND submits to NSLDS contain accurate information.

Department's View and Corrective Action Plan

Because the FFEL Program is administered by EDFUND on behalf of Student Aid, EDFUND management has provided the following response.

The system logic that is used to create the required monthly submission of loan detail to NSLDS is separate from the system logic that is used to create the required monthly and annual federal reporting to the Federal Education. The discrepancy noted by the Bureau of State Audits is not related to the federal reporting detail that is submitted to the Federal Education for payment of reinsurance. The Federal Education's primary method for verifying the data integrity of federal reporting is through reasonability checks that are performed on a regular basis. These performance reports compare the data residing on NSLDS to the data being submitted through the federal reporting process. The published performance reports have not previously indicated that a notable data integrity issue exists regarding lender claim payment amounts.

The noted discrepancy in the lender claim payments amounts as reported to NSLDS through the required monthly submission of loan detail will be researched. The NSLDS guarantor data provider instructions will be reviewed and compared to the current system logic used to identify the appropriate lender claim payment amounts. Necessary changes to the system logic for this monthly reporting will be implemented by June 30, 2008.

Reference Number:	2007-13-6
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families With Disabilities
Federal Award Numbers and Years:	H181A050037;2005 H181A060037;2006
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133)
Subpart D—Federal Agencies and Pass-Through Entities, Section .400, Responsibilities

- (d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:
 - (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

Condition

Developmental Services did not adequately fulfill its subrecipient monitoring responsibilities for the program. Although Developmental Services identified the federal laws and regulations that govern the program in its contracts with subrecipients, for five of the six contracts we tested, it did not include information such as the Catalog of Federal Domestic Assistance (CFDA) title, CFDA number, award name and federal agency name. Without the required federal award information, Developmental Services cannot ensure that subrecipients understand and are aware of all the relevant federal requirements governing the program.

According to the assistant section chief of the Customer Support Section, Developmental Services has since worked with its subrecipients to add the required language to their fiscal year 2007–08 contracts.

Questioned Costs

Not applicable.

Recommendation

Developmental Services should ensure that it complies with all of its pass-through entity responsibilities, especially those related to federal awards it makes.

Department's View and Corrective Action Plan

During the fiscal year under audit, Developmental Services was in the process of implementing a corrective action plan to address this finding. The required language was drafted in fiscal year 2006–07 and finalized in fiscal year 2007–08. Upon finalizing the required contract language, all subrecipient contracts were identified and amended to include the required language. As indicated in the condition for this finding, Developmental Services has worked with its subrecipients to add the required language in their contracts for fiscal year 2007–08. This was completed in September 2007.

To ensure that all future subrecipient contracts are properly identified, the Customer Support Section is revising the internal contract request form to include all of the required federal award information. The request form is being revised to require an indication whether the contract is with a subrecipient or with a vendor that provides services. The contract request form is the document used to initiate the contract process. In addition, staff will be trained to return the contract request form if it does not contain the required information and contract process will not begin until the all required federal award information is provided. The initial revisions to the contract request form were drafted in fiscal year 2006–07. Developmental Services anticipates that the revisions to the contract request form will be finalized and implemented by May 31, 2008.